



INTERNAL AUDIT CONTROLS EVALUATION FIXED ASSETS

April 5, 2004

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed an audit of processes in individual City departments related to accounting for fixed assets individually valued at under \$5,000. We performed the audit in accordance with generally accepted government auditing standards.

BACKGROUND

The Department of Finance maintains a fixed asset accounting system for assets valued at \$5,000 or more. This system provides the capability to print listings of assets by location so that annual inventories can be taken to verify assets exist. Assets costing less than \$5,000 are expensed when purchased and are not recorded on the fixed assets system. However, the Department of Technology maintains a detailed inventory of technology equipment, such as computers and personal digital assistants, that typically cost less than \$5,000 in its support management system. The city does not have a policy addressing the responsibilities of individual departments for maintaining a record of other assets valued at less than \$5,000.

PURPOSE

The purpose of this audit was limited to the following objectives:

- To identify and verify existence of assets costing less than \$5,000.
- To evaluate the process for managing and safeguarding such assets at the department level.

SCOPE

Our audit focused on the system of internal controls in place as of December 1, 2003. We tested purchases made between July 1, 2002 and August 31, 2003.

METHODOLOGY

Using detailed account data from the finance system, we identified departments that had expenditures in a combination of equipment and inventory accounts

that exceeded \$10,000 over the period audited. After reviewing the detailed expenditures, we selected 10 departments for review.

Using a control questionnaire developed for this audit, we visited each department and documented the processes in place for managing and safeguarding fixed assets costing less than \$5,000. Based on the processes documented, we concluded on the adequacy of the procedures for managing and protecting these assets. We also selected a sample of assets from the City's accounts payable files and worked with the departments to locate these assets. We concentrated on items that were more susceptible to loss or theft such as small electronics, weed eaters, and power washers.

RESULTS

The ten departments selected for review included the Roanoke City Sheriff's Office, the Department of Technology, Facilities Management, the Water Pollution Control Plant, Fire/EMS, Streets and Traffic, Traffic Engineering, Parks and Recreation, and the Roanoke Civic Center. We found that all 75 assets we selected for testing could be located.

Finding 01 – Controls Over Fixed Assets

We concluded that five (5) of the ten (10) departments reviewed did not have adequate controls in place to ensure assets were properly managed and safeguarded. Our evaluation was based on the degree to which departments maintained a listing of their assets, whether or not they tagged or engraved assets to identify them as city property, and how often they took an inventory of their assets.

We noted that there are no recommended guidelines provided to departments related to controlling fixed assets, and the City does not have an administrative procedure that addresses how assets valued under \$5,000 are to be managed.

Maintaining detailed records for all assets is the most elementary asset management control. Property records are the basis for planning repairs, replacement, disposal and efficient assignment of equipment. Periodic inspections (inventory) should take place at least annually. A physical inspection of assets not only helps management maintain an awareness that assets are safe guarded, but also helps ensure management is aware of the physical condition of assets.

Recommendation 01 – Controls Over Fixed Assets

Our department plans to work with the City Manager's Office, the Department of Finance, and the Department of Technology to evaluate how the scheduled upgrade of our accounting system and the planned implementation of a new work order system may impact our ability to maintain better asset records. Also, consideration will be given to creating a new administrative procedure

that will provide guidelines for maintaining appropriate records of fixed assets valued at less than \$5,000.

CONCLUSION

Based on the results of our audit work, we conclude that the overall design of the system of internal controls should be strengthened to provide greater assurance that fixed assets under \$5,000 are adequately managed and safeguarded.

We want to thank management and staff in the Sheriff's office, Department of Technology, Facilities Management, Water Pollution Control Plant, Fire/EMS, Streets and Traffic, Traffic Engineering, Parks & Recreation, Civic Center and the Department of Finance for their cooperation and assistance during this audit.

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